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C O N F I D E N T I A L CARACAS 000162

SIPDIS

SENSITIVE

STATE FOR WHA/AND, EB
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TREASURY FOR OASIA - GIANLUCA SIGNORELLI
USCINCSO FOR POLAD

E.O. 12958: DECL: 01/15/2008
TAGS: ECON PGOV VE FIN
SUBJECT: GOV FLOATS USD 1 BILLION BOND ISSUE

REF: (A) CARACAS 103 (B) CARACAS 101

Classified By: Ambassador Charles S. Shapiro for reasons 1.4(b) and (d)

Summary

¶1. (C) Venezuela issued its fifth tranche of bonds in the past six months on January 7. The new bonds raised USD 1 billion for the GOV and were in heavy demand due to their high offered yield. With a high rate of financing needed for the FY 2004 budget deficit and debt service, more bond operations can be expected. However, external factors could lower the markets appetite for Venezuelan securities in the future. End summary.

New 30-Year Notes

¶2. (U) The GOV issued USD 1 billion in new 30-year bonds January 7. JPMorgan Chase was the agent for the transaction. For the first time since 1998, Venezuela registered the bond issue with the US Securities and Exchange Commission. Therefore, the bonds can immediately be traded in US markets. Final closing yield on the bonds was 9.38 percent. The new issue raises Venezuela's total external debt operations since August 1, 2003 to USD 5.55 billion.

Oil Makes It Attractive Despite Chavez

¶3. (SBU) Luis Oganes, JPMorgan Chase Economist and Emerging Market Analyst for the Andean Region, told econoff January 8 that the issue was oversubscribed by approximately USD 2.5 billion dollars. Investors were eager to snap up the relatively high yield bonds in light of continued high oil prices according to Oganes. He added that the only hiccup was from an ill-timed threat from President Chavez to the Central Bank in the ongoing dispute over reserve transfers (ref A). Oganes said that despite Chavez's remarks, only three smaller orders were cancelled. The oversubscription of the issue pushed the yield almost a full point below the initially offered yield of 10.125 to 10.25 percent.

Yields Are Key

¶4. (SBU) Miguel Octavio, Executive Director of local investment firm BBO echoed Oganes in a conversation with econoffs January 14. Octavio said higher offered yields were the key to Venezuela's successful debt offerings since August. He said one only had to compare the 5 to 7 percent yields on recent issues from Mexico, Costa Rica, and Turkey to understand the attraction for Venezuelan bonds. In a January 15 conference, Economist Cristina Rodriguez of local economic analysis firm Metroeconomica, predicted that the GOV would go to the markets again since it faces financing demands around 16 percent of GDP under the FY 2004 budget.

Comment

¶5. (C) The appetite of international markets for Venezuelan debt seems remarkable, at least when viewed from here, the epicenter of political and economic chaos. Low US interest rates, high oil prices, and a perceived recovery in Venezuelan oil production are factors that strengthen the Ministry of Finance's ability to sell up to a USD billion per month in GOV paper. However, should the US recovery result in the Fed raising interest rates or should oil prices falter, market interest in Venezuela could slacken. We have already reported our skepticism regarding the third leg of this triad, Venezuelan oil production levels (ref B). If international financial options are limited, other vehicles

such as Chavez's effort to tap Central Bank reserves (ref A) may become increasingly important as the GOV seek to push the pain of any adjustment in spending into the second half of

2004 when the current referendum/electoral cycle will presumably have passed.
SHAPIRO

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